

*Paw Paw District Library*  
*Van Buren County, Michigan*  
**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**  
*Year ended December 31, 2008*

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Paw Paw District Library

We have audited the accompanying financial statements of the governmental activities and each major fund of Paw Paw District Library, as of December 31, 2008, and for the year then ended, which collectively comprise the Library's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Paw Paw District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Paw Paw District Library as of December 31, 2008, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

The budgetary comparison schedule is not a required part of the basic financial statements of the Paw Paw District Library but is supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Paw Paw District Library has not presented the management's discussion and analysis that Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*Siegfried Crandall P.C.*

January 31, 2009

## **BASIC FINANCIAL STATEMENTS**

**Paw Paw District Library**  
**STATEMENT OF NET ASSETS**  
*December 31, 2008*

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**ASSETS**

Current assets:

Cash	\$ 663,817
Accounts receivable	<u>726,961</u>

Total current assets 1,390,778

Noncurrent assets:

Capital assets not being depreciated - land	350,000
Capital assets, net of accumulated depreciation	<u>554,287</u>

Total noncurrent assets 904,287

Total assets 2,295,065

**LIABILITIES**

Current liabilities:

Payables	15,246
Deferred revenue	<u>739,635</u>

Total current liabilities 754,881

Noncurrent liabilities - compensated absences 3,511

Total liabilities 758,392

**NET ASSETS**

Invested in capital assets	904,287
Restricted for nonexpendable endowment	2,500
Unrestricted	<u>629,886</u>

Total net assets \$ 1,536,673

*See notes to the financial statements*

**Paw Paw District Library**  
**STATEMENT OF ACTIVITIES**  
*Year ended December 31, 2008*

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**PROGRAM EXPENSES**

Recreation and cultural - library \$ 664,055

**PROGRAM REVENUES**

Charges for services 87,648

Operating grants and contributions 8,109

Total program revenues 95,757

**NET PROGRAM EXPENSES** (568,298)

**GENERAL REVENUES**

Property taxes 717,816

Investment return 18,600

Total general revenues 736,416

**NET CHANGE IN NET ASSETS** 168,118

**NET ASSETS - BEGINNING** 1,368,555

**NET ASSETS - ENDING** \$ 1,536,673

*See notes to the financial statements*

**Paw Paw District Library**  
**BALANCE SHEET - governmental funds**  
December 31, 2008

	<u>General</u>	<u>Powless Memorial Nonexpendable Trust</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash	\$ 661,317	\$ 2,500	\$ 663,817
Receivables	<u>726,961</u>	<u>-</u>	<u>726,961</u>
Total assets	<u>\$ 1,388,278</u>	<u>\$ 2,500</u>	<u>\$ 1,390,778</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Payables	\$ 15,246	\$ -	\$ 15,246
Deferred revenue	<u>739,635</u>	<u>-</u>	<u>739,635</u>
Total liabilities	<u>754,881</u>	<u>-</u>	<u>754,881</u>
Fund balances:			
Reserved for endowment	-	2,500	2,500
Unreserved:			
Designated	350,000	-	350,000
Undesignated	<u>283,397</u>	<u>-</u>	<u>283,397</u>
Total fund balances	<u>633,397</u>	<u>2,500</u>	<u>635,897</u>
Total liabilities and fund balances	<u>\$ 1,388,278</u>	<u>\$ 2,500</u>	<u>\$ 1,390,778</u>

Fund balances - total governmental funds \$ 635,897

Amounts reported for *governmental activities* in the statement of net assets (page 4) are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds. 904,287

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. (3,511)

Net assets of *governmental activities* \$ 1,536,673

See notes to the financial statements

**Paw Paw District Library**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - governmental funds**

*Year ended December 31, 2008*

	<u>General</u>	<u>Powless Memorial Nonexpendable Trust</u>	<u>Totals</u>
<b>REVENUES</b>			
Taxes	\$ 717,816	\$ -	\$ 717,816
State grants	8,109	-	8,109
Charges for services	7,611	-	7,611
Fines and forfeitures	68,948	-	68,948
Investment return	18,600	-	18,600
Other	11,089	-	11,089
	<u>832,173</u>	<u>-</u>	<u>832,173</u>
Total revenues			
	<u>832,173</u>	<u>-</u>	<u>832,173</u>
<b>EXPENDITURES</b>			
Recreation and cultural	572,047	-	572,047
Capital outlay	403,103	-	403,103
	<u>975,150</u>	<u>-</u>	<u>975,150</u>
Total expenditures			
	<u>975,150</u>	<u>-</u>	<u>975,150</u>
<b>NET CHANGE IN FUND BALANCES</b>	(142,977)	-	(142,977)
<b>FUND BALANCES - BEGINNING</b>	<u>776,374</u>	<u>2,500</u>	<u>778,874</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 633,397</u>	<u>\$ 2,500</u>	<u>\$ 635,897</u>
Net change in fund balances - total governmental funds			\$ (142,977)
Amounts reported for <i>governmental activities</i> in the statement of activities (page 5) are different because:			
Capital assets:			
Amounts capitalized			383,509
Provision for depreciation			(73,798)
Decrease in accrued liabilities - compensated absences			<u>1,384</u>
Change in net assets of <i>governmental activities</i>			<u>\$ 168,118</u>

*See notes to the financial statements*



**Paw Paw District Library**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Paw Paw District Library (the Library) conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the more significant policies:

*a) Reporting entity:*

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Library. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Library has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Library's financial statements. Also, the Library is not a component unit of any other entity.

*b) Government-wide and fund financial statements:*

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Library. The effect of all interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

*c) Measurement focus, basis of accounting, and financial statement presentation:*

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the nonexpendable trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**Paw Paw District Library**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

*c) Measurement focus, basis of accounting, and financial statement presentation (continued):*

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government.

The Library reports the following major governmental fund:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Powless Memorial Nonexpendable Trust Fund is a permanent fund that accounts for resources legally held in trust, as an endowment, that are legally restricted to the extent that only earnings, and not principal, may be used to support the Library's programs.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB).

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; and (2) operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

*d) Assets, liabilities, and net assets or equity:*

*i) Bank deposits and investments* - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

*ii) Receivables* - All receivables are considered to be fully collectible, and all are due within one year.

*iii) Capital assets* - Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 40 years
Furniture and equipment	3 - 10 years
Books and A/V materials	10 years

**Paw Paw District Library**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) *Assets, liabilities, and net assets or equity* (continued):

iv) *Deferred revenue* - In the fund financial statements, governmental funds report deferred revenue in connection with resources that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

v) *Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

vi) *Property tax revenue recognition* - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Library. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Library levy date is December 1, and, accordingly, the total levy is recognized as revenue in the subsequent year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

*Budgetary information* - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the functional level. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. The Library experienced no expenditures in excess of budgetary limits.

NOTE 3 - CASH:

State statutes and the Library's investment policy authorize the Library to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Library's deposits are in accordance with statutory authority. At December 31, 2008, the Library had deposits with a carrying amount of \$663,817.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Library will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. At December 31, 2008, \$29,672 of the Library's bank balances of \$664,855 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Library believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

**Paw Paw District Library**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 4 - RECEIVABLES:**

Receivables (all of which are due within one year and considered fully collectible) as of year end for the Library in the aggregate, are as follows:

	<u>General</u>
Property taxes	\$ 722,809
Intergovernmental	<u>4,152</u>
Net receivables	<u>\$ 726,961</u>

**NOTE 5 - PROPERTY TAXES:**

The Library's property taxes are levied on each December 1 on the taxable valuation of property (as defined by State statutes) located in the District as of the preceding December 31.

Although the Library's 2008 ad valorem tax is levied and collectible on December 1, 2008, it is the Library's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made "available" for the financing of operations.

The 2008 taxable valuation of the Library district totaled \$418,199,206, on which ad valorem taxes levied consisted of the following:

<u>Fund</u>	<u>Millage rate</u>	<u>Purpose</u>	<u>Taxes raised</u>
General	1.7507	Operating	\$ 732,001

These amounts are recognized in the financial statements as taxes receivable, with an offsetting credit to deferred revenue.

Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

**Paw Paw District Library**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 6 - CAPITAL ASSETS:**

Capital asset activity for the year ended December 31, 2008, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets not being depreciated - land	\$ -	\$ 350,000	\$ -	\$ 350,000
Capital assets being depreciated:				
Buildings and improvements	547,740	24,360	-	572,100
Furniture and equipment	283,501	9,149	-	292,650
Materials	452,380	-	-	452,380
Subtotal	<u>1,283,621</u>	<u>33,509</u>	<u>-</u>	<u>1,317,130</u>
Less accumulated depreciation for:				
Buildings and improvements	(240,777)	(14,303)	-	(255,080)
Furniture and equipment	(229,362)	(14,257)	-	(243,619)
Materials	<u>(218,906)</u>	<u>(45,238)</u>	<u>-</u>	<u>(264,144)</u>
Subtotal	<u>(689,045)</u>	<u>(73,798)</u>	<u>-</u>	<u>(762,843)</u>
Total capital assets being depreciated, net	<u>594,576</u>	<u>(40,289)</u>	<u>-</u>	<u>554,287</u>
Capital assets, net	<u>\$ 594,576</u>	<u>\$ 309,711</u>	<u>\$ -</u>	<u>\$ 904,287</u>

**NOTE 7 - PAYABLES:**

Payables as of year end for the Library in the aggregate, are as follows:

	<u>General</u>
Accounts	\$ 3,837
Payroll	<u>11,409</u>
Net payables	<u>\$ 15,246</u>

**NOTE 8 - DEFERRED REVENUE:**

As of December 31, 2008, deferred revenue consisted of unearned property tax revenue.

**Paw Paw District Library**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 9 - NONCURRENT LIABILITIES:**

At December 31, 2008, noncurrent liabilities consist of accrued employee benefits. The activity for the fiscal year was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Governmental activities:					
Compensated absences	\$ 4,895	\$ 1,650	\$ (3,034)	\$ 3,511	\$ -

**NOTE 10 - RISKS MANAGEMENT:**

The Library is exposed to various risks of loss due to general liability, property and casualty, and employee injuries (workers' compensation).

The risks of loss arising from general liability up to \$1,000,000 aggregate, building contents and property damage, and workers' compensation coverage are managed through purchased commercial insurance.

**NOTE 11 - CHANGE IN ACCOUNTING PRINCIPLES:**

Effective January 1, 2008, the Library corrected its method of accounting for government-wide activities, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, along with all related statements and interpretations. Previously, the Library had not presented a statement of net assets and changes therein. In connection with the correction in the method of accounting for net assets, the following adjustments to beginning of year net assets have been made to reflect the cumulative effect of this accounting change:

Total fund balances	\$ 778,874
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	594,576
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(4,895)</u>
Net assets, beginning of year, as restated	<u>\$ 1,368,555</u>

## REQUIRED SUPPLEMENTARY INFORMATION

**Paw Paw District Library**  
**BUDGETARY COMPARISON SCHEDULE - General Fund**  
Year ended December 31, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>				
Property taxes	\$ 707,000	\$ 707,000	\$ 717,816	\$ 10,816
State grants	2,000	2,000	8,109	6,109
Charges for services	2,700	2,700	7,611	4,911
Fines and forfeitures	62,000	62,000	68,948	6,948
Investment return	30,000	30,000	18,600	(11,400)
Other	<u>1,300</u>	<u>1,300</u>	<u>11,089</u>	<u>9,789</u>
Total revenues	<u>805,000</u>	<u>805,000</u>	<u>832,173</u>	<u>27,173</u>
<b>EXPENDITURES</b>				
Recreation and cultural:				
Salaries, wages, and payroll taxes	420,000	420,000	399,530	20,470
Employee benefits	33,500	33,500	31,622	1,878
Supplies	20,550	20,550	13,783	6,767
Printing and postage	1,450	1,450	1,013	437
Library materials	66,000	66,000	49,341	16,659
Professional services	90,000	91,100	10,406	80,694
Travel, dues, and education	11,000	11,000	7,427	3,573
Insurance	9,500	9,500	7,578	1,922
Utilities	27,500	27,500	23,366	4,134
Repairs and maintenance	32,000	33,000	27,228	5,772
Miscellaneous	<u>1,500</u>	<u>1,500</u>	<u>753</u>	<u>747</u>
Total recreation and cultural	713,000	715,100	572,047	143,053
Capital outlay	<u>70,000</u>	<u>431,000</u>	<u>403,103</u>	<u>27,897</u>
Total expenditures	<u>783,000</u>	<u>1,146,100</u>	<u>975,150</u>	<u>170,950</u>
<b>NET CHANGE IN FUND BALANCES</b>	22,000	(341,100)	(142,977)	198,123
<b>FUND BALANCES - BEGINNING</b>	<u>776,374</u>	<u>776,374</u>	<u>776,374</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 798,374</u>	<u>\$ 435,274</u>	<u>\$ 633,397</u>	<u>\$ 198,123</u>



January 31, 2009

To the Board of Trustees  
Paw Paw District Library

We have audited the financial statements of the governmental activities and each major fund of the Paw Paw District Library for the year ended December 31, 2008, and have issued our report thereon dated January 31, 2009. Professional standards require that we provide you with the following information related to our audit.

*Our Responsibility under U.S. Generally Accepted Auditing Standards*

As stated in our engagement letter dated January 21, 2009, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Paw Paw District Library are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2008. We noted no transactions entered into by the Paw Paw District Library during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Library's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

#### *Audit Adjustments*

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter associated with the audits for the year ended December 31, 2008.

#### *Other Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Paw Paw District Library's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Communication Regarding Internal Control*

In planning and performing our audit of the financial statements of the Paw Paw District Library as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Paw Paw District Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls and, accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The Library has not implemented a system of controls to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to achieve the objectives of recording revenue and expense accruals, the capitalization and depreciation of capital assets, and the presentation of financial statement disclosures. This is a recurring comment. The Library has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so.

This communication is intended solely for the information and use of the Board of Trustees of the Paw Paw District Library and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Sigfried Crandall A.C.*